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ABSTRACT

During the 6-month period ending March 31, 1998, the Office of Inspector General assisted the Department of Education in ensuring that taxpayer-funded federal education programs and operations are implemented efficiency, effectiveness, integrity and accountability. In the executive summary, under "Goal 1: Programs and Operations Improvement," student financial-assistance programs offer a significant management challenge. An audit of 16 participating schools found that the Direct Loan program requires attention and better data. Audits of the 1973 Rehabilitation Act and the Elementary and Secondary Education Act (ESEA) are under way. ADP system audits revealed that the Chief Information Officer needs a stronger leadership role in the Information Technology Department and that Year 2000 school readiness efforts are behind schedule. Financial-statement audits, performance-measure advisory activities, and management reviews are also described. Under "Goal 2: Programs and Operations Integrity," OIG's work discloses significant fraud, waste, and abuse; results in enforcement and corrective actions; and promotes deterrence. Fraudulent practices in the student financial assistance program, the Foreign School Project, and the Collegiate Athletic Student Funding Project were investigated. Included are abstracts of significant audits and audit-related activities, significant prosecutive actions, and alternative products. (MLH)

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U.S. Department of Education

Office of Inspector General

Semiannual Report to Congress No. 36

October 1, 1997 — March 31, 1998

EA 029 113

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U.S. Department of Education

Office of Inspector General

Semiannual Report to Congress

No. 36

October 1, 1997 – March 31, 1998

UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

April 29, 1998

Honorable Richard W. Riley
Secretary of Education
Washington, DC 20202

Dear Mr. Secretary:

I am pleased to submit this *Semiannual Report* on the activities of the Department's Office of Inspector General (OIG) for the six-month period ending March 31, 1998. Submission of this report is in accordance with section 5 of the Inspector General Act of 1978 (Public Law 95-452, as amended). The act requires that you transmit this report within thirty days to the appropriate congressional committees and subcommittees, along with any comments you may wish to make.

Our efforts this period continued to advance both OIG's and the Department's mission and goals, through a carefully designed program of audits, investigations and reviews intended to help managers administer their programs and carry out their oversight responsibilities more efficiently, effectively and economically. The work of OIG staff has resulted in reports and prosecutive actions that have brought important issues to the attention of Department managers, along with recommendations to help managers resolve identified problems or to prevent their recurrence.

I look forward to continuing to work with you and Department managers as we seek to ensure the efficiency, effectiveness and integrity of Education Department programs and operations.

Sincerely,

John P. Higgins, Jr.
Acting Inspector General

600 INDEPENDENCE AVE., S.W. WASHINGTON, D.C. 20202-1510

Our mission is to ensure equal access to education and to promote educational excellence throughout the Nation.

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~ EXECUTIVE SUMMARY ~
Significant Activities and Accomplishments

During the period of this report, the Office of Inspector General (OIG) continued its ongoing efforts to assist Department of Education (ED) managers and officials in assuring that taxpayer-funded federal education programs and operations are implemented with efficiency, effectiveness, integrity, and accountability. To more clearly delineate the strategic focus of our efforts during the period, the accomplishments set forth in this Executive Summary, unlike those of previous *Semiannual Reports*, are organized according to the goals of our Strategic Plan. Highlights of our efforts follow.

GOAL 1: PROGRAMS AND OPERATIONS IMPROVEMENT

OIG products and services are used by the Department of Education, Congress and other interested parties to improve the efficiency, effectiveness and integrity of education programs and operations.

Significant Management Challenge: The Student Financial Assistance Programs

The area of greatest risk confronting the Department of Education involves the student financial assistance (SFA) programs, specifically the loan and grant programs under Title IV of the Higher Education Act. The subject of previous Congressional hearings, as well as OIG and General Accounting Office (GAO) reports, these programs consistently have been identified as high-risk and the most vulnerable to fraud, waste and abuse.

LETTER TO MAJORITY LEADER OUTLINES OIG CONCERNS

This period, in response to a request from the Majority Leader, United States House of Representatives, for our assessment of the greatest challenges facing ED management, the Inspector General provided a detailed summary of our concerns relative to the SFA programs. Our summary outlined the technical, technological, information-based, gatekeeping and monitoring problems that continue to trouble these programs and seriously impede the Department's effective administration of them.

The concerns identified in our summary included lack of technical expertise, need for integrated delivery and information systems, Year 2000 concerns, delays in implementing a central payment system (a Department-wide concern), unreliable SFA data, need for improved reconciliation and monitoring, gatekeeping and monitoring of schools, and inability to verify the accuracy of income reported by students on SFA applications. ED's management does recognize the challenges facing the SFA programs and is working to address them.

DIRECT LOAN SCHOOL AUDIT — CONSOLIDATED REPORT

OIG audits have repeatedly found that reconciliation and monitoring schools participating in the Direct Loan Program requires attention and better data. Our audit of 16 participating schools (see Abstract 1, *"Significant Audits and Audit-related Activities"*) disclosed weaknesses in their administration of the program in the following areas: student status reporting, electronic data processing controls, loan record accuracy, cash management, reconciliation, policies and procedures, and quality assurances.

In addition, we conducted three Direct Loan Program school reviews that were not included in the consolidated report. The weaknesses cited in these reviews were the same as those noted in the consolidated report. (See Abstract 1, *"Significant Audits and Audit-related Activities."*)

Reauthorization

The following initiatives were conducted by OIG during the period as part of our ongoing effort to ensure that ED program legislation contains provisions that will increase the accountability of ED fund recipients and address key issues that have been identified in the course of OIG audit and review efforts.

REHABILITATION ACT

This period the OIG issued a "perspectives paper" that addresses Title I of the Rehabilitation Act of 1973 issues. Our paper, which provided a synopsis of several OIG audits performed in anticipation of the authorization of the Rehabilitation Act, recommended that Congress change the Title I program allocation formula to better ensure that ED disburses program funds based on the actual location of individuals with disabilities. If a formula change is not feasible, Congress should authorize research on the disbursement of Title I program funds to enable further study on the equity of the current formula.

We also recommended that Congress enact legislation that would allow the Rehabilitation Services Administration to monitor states based on performance and risk data; require states to submit accurate and timely data under the Government Performance and Results Act (GPRA); and allow imposition of appropriate sanctions for false or untimely data submission.

ELEMENTARY AND SECONDARY EDUCATION ACT (ESEA)

The OIG is conducting a series of audits to assist ED program officials, the Office of Management and Budget and Congress in reauthorizing the ESEA in 1999. We are coordinating

these audits with program officials within the Department, and with officials at state and local education agencies. Before beginning these audits, we met with Congressional staff to obtain their ideas on what audits would prove useful.

Audits of ESEA programs underway

The OIG is performing audits on the Safe and Drug-Free Schools and Communities Program and Charter Schools. We are also performing an audit of educational disbursements to local educational agencies that is designed to determine the amount of Title I, Part A and Vocational Education funds reaching the schools. During the previous reporting period, OIG issued audit reports on the Bilingual Education Program and the Title XIV flexibility provisions (see *Semiannual Report No. 35*, page 2).

ESEA *Compliance Supplement*

The OIG is reviewing selected Fiscal Year (FY) 1996 single audits of state and local education agencies to determine whether the *ESEA Compliance Supplement* is working as intended. More specifically, we want to determine if the *Supplement* has been effective in informing the audit and education communities about new requirements of the Improving America's Schools Act, as well as the options it provides for additional administrative flexibility. As part of our review, we plan to solicit comments and suggestions for improving the *Supplement* from state auditors, independent auditors who conduct single audits, and program managers.

Regulations

The OIG served as part of the Department Policy Group that compiled the *Notice of Proposed Rulemaking for the Assistance to States for the Education of Children with Disabilities, Pre-school Grants for Children with Disabilities, and Early Intervention Program for Infants and Toddlers with Disabilities*. This proposed rule will implement the legislative change that Congress made to the funding formula for Special Education in 1997, and will make the regulatory change to eliminate the Secretary's Review Process. The Department took these actions in response to OIG audits of the Special Education program.

In addition, the OIG served on a team that received public testimony in response to the publishing of the proposed rule. The team received the testimony at various sites within the United States, and the Department will consider it before publishing the final rule.

Departmental Operations

OIG continued to advise and assist the Department in its efforts to manage its operations and programs more efficiently and effectively. Highlights of our efforts follow.

ADP systems audits

This period we completed two ADP systems audits and began two more, which are in process. The results of the completed reviews are described in greater detail in Abstract 1, *"Significant Audits and Audit-related Activities."*

Leadership role for CIO needed in information technology matters

Our review of the Department's implementation of the Clinger-Cohen Act identified the need for the Chief Information Officer (CIO) to establish a greater leadership role in the Department's information technology (IT) matters. In part, the CIO needs to establish an IT architecture, implement an adequate capital planning and investment control process, and complete IT knowledge and skills assessments Department-wide.

Year 2000 efforts behind schedule

The second audit, on ED's readiness for the year 2000 (Y2K), concluded that the Department was behind schedule and needed to accelerate its effort. While ED has made good progress in the past few months, the recent departure of the Y2K project director presents a significant challenge to avoid loss of momentum at a critical point during the countdown to the new millennium.

Audit in process: ADP system development

The first of our reviews is an assessment of the Department's process for defining system requirements and specifications in its ADP system development efforts. The objectives of the review are:

- ☆ to determine whether the Department adequately defined system requirements in its ADP development contracts; and
- ☆ to determine whether the Department adequately system-tested the requirements prior to deployment of the ADP system.

Audit in process: procurement of IT systems

The second review is an assessment of the Office of Postsecondary Education's (OPE) process for procuring information technology (IT) systems for use in administering its SFA programs. The objectives of the review are:

- ☆ to evaluate the adequacy of OPE's process for defining technical requirements and evaluating contractor proposals;
- ☆ to assess the technical qualifications of OPE staff involved with the procurement of IT processes; and
- ☆ to determine whether OPE managers considered the cost-effective use of new technology in its ADP applications.

We plan to issue both reports during the next semiannual reporting period.

FINANCIAL STATEMENT AUDITS

The Government Management Reform Act (GMRA) requires annual audits of agency-wide financial statements beginning in FY 1996, and requires agencies to issue reports of the audits by March 1 following the end of the previous fiscal year.

The Department elected to implement this requirement one year early and prepared agency-wide financial statements for FY 1995. Thus, FY 1997 is the third year that ED has prepared agency-wide financial statements and subjected them to audit.

Audit in process

Our audit of Education's FY 1997 agency-wide financial statements is still in process; we expect to complete the audit report by the end of May. The Department's Chief Financial Officer (CFO) plans to issue the accountability report (which includes among other things the financial statements and auditor's reports) no later than June 30.

Congressional inquiry

In response to a Congressional inquiry as to why Education did not meet the March 1 statutory report date, the CFO indicated that a reasonable methodology and system did not exist for estimating the loss incurred on loans made and guaranteed by the Department. The time required to develop this methodology and system, and to collect supporting data, is the reason for the delay in issuing financial statements. As a result, the OIG extended the audit period beyond March 1 in order to provide the Department time to resolve the issue.

In an effort to support the Department in the timely issuance of audited financial statements, the OIG will ensure that future auditor's reports will be issued no later than March 1.

PERFORMANCE MEASURES

The OIG has participated in an advisory capacity in the development of ED's Strategic Plan and performance plan by providing review and comments. In this advisory capacity, the OIG recommended that ED program managers assert that data used for their programs' performance measures are reliable, or, if not reliable, that they provide detailed plans for improving the data or finding alternative sources. The Department agreed with our recommendation and included it as a performance indicator in the Strategic Plan.

Government Performance and Results Act

The Department of Education has met the statutory requirements for submitting a strategic plan and an annual performance plan to Congress and OMB. A GAO assessment commented favorably on ED's strategic plan. GAO concluded that the agencies' plans, including ED's, appeared to provide a workable foundation for Congress to use in helping to fulfill its appropriation, budget, authorization and oversight responsibilities and for agencies to use in setting a general direction for their efforts. Congressional interim evaluations of agencies' draft plans and their final strategic plans for compliance ranked ED second among all agencies.

Audit in process

The OIG is currently performing the first in a series of audits covering ED's implementation of the GPRA. The objectives of the first audit are:

- ☆ to assess ED's process for institutionalizing the results-oriented management envisioned by the Act; and
- ☆ to assess ED's development of the system for the accurate and timely collection and reporting of performance data.

We plan to issue our report during the next reporting period, and will conduct subsequent audits on selected performance measurement data to assess both the reliability of the data and how ED is using it to improve programs.

Quick Reaction Reports to Management

OIG staff completed a number of additional work products during the reporting period. The most significant of these are highlighted below.

ACTION MEMORANDA

The OIG issued eight action memoranda this period on a wide range of issues—from the administrative capability and financial responsibility of a large midwestern university, to the organizational conflict of interest, subcontracting methodology, and inconsistent treatment of professional membership dues relating to the Department's Regional Education Laboratory contracts. A list of these work products may be found in Abstract 3, *"Alternative Products."*

MANAGEMENT REVIEWS

During the reporting period, we completed management reviews on ED's Computer Donation Program (CDP) and its Leased Real Estate. The results of these reviews are summarized below.

Computer Donation Program (CDP)

In our review of the CDP, we observed that the Department had implemented improvements previously agreed to. These improvements included the following:

- ☆ The development of appropriate operational procedures for disposing of obsolete computer equipment, and providing assistance to qualified recipients.
- ☆ The development of formal written guidance to principal offices detailing how to transfer surplus computer equipment to other principal offices and qualified recipients.
- ☆ The development of a CDP Tracking System to ensure that all CDP donation records are inputted and current.

Leased Real Estate

Under Leased Real Estate, with the concurrence of the Department's Quality Workplace Group (QWG), we recommended that QWG:

- ☆ meet with principal offices and demonstrate to them the importance and potential benefits of properly managing the Department's space;
- ☆ immediately dedicate the necessary resources and time to complete an accurate inventory of ED's space;
- ☆ with the help of principal offices, develop new space standards and requirements through the issuance of a revised ED directive on space management; and
- ☆ affix responsibility for managing ED's space usage to one qualified individual who will work with principal offices and assist them in actively managing space usage.

Audit Quality Initiatives

Cooperative Audit Resolution and Oversight Initiative

As reported in previous *Semiannual Reports*, we have been working with an intra-departmental team on a wide-ranging project known as the Cooperative Audit Resolution and Oversight Initiative, or CAROI. Other offices participating in the CAROI initiative include the Office of Elementary and Secondary Education, the Office of Vocational and Adult Education, the Office of Special Education and Rehabilitative Services, the Office of the General Counsel and the Office of the Chief Financial and Chief Information Officer.

Commonwealth of Pennsylvania

This period, the CAROI team and ED program officers completed the most ambitious CAROI project to date with the resolution of over one hundred Single Audit findings affecting numerous agencies in the Commonwealth of Pennsylvania. The resulting agreement not only resolved the numerous existing findings, but should also improve future audit resolution and program performance.

The Pennsylvania representatives expressed satisfaction with the results of the CAROI project and strongly endorsed a continuation of the improved federal and state cooperation and communication that occurred with CAROI. (For additional information on the CAROI team's activities and accomplishments, see Abstract 1, *"Significant Audits and Audit-Related Activities."*)

Audit Quality Project

This period OIG performed seventy-five quality control reviews (QCRs) of audit working papers prepared by thirty-six independent public accountants (IPAs). These IPAs were responsible for a substantial portion of the SFA audits for the fiscal year ended June 30, 1995.

Significant proportion of audits display problems

The primary purpose of our QCRs was to evaluate the quality of audits by reviewing the auditors' working papers for adherence to requirements set forth in our June 1995 *SFA Audit Guide*, the American Institute of Certified Public Accountants (AICPA) *Attestation Standards*, and the *Government Auditing Standards*. We found that forty-four of the seventy-five audits reviewed (59 percent) were substandard or contained significant inadequacies.

Letters issued to IPAs

The thirty-six IPAs audit 1,145 of the 4,698 proprietary schools (approximately 24 percent). A total of $189,952,756 in SFA funding (excluding campus-based programs) was provided to the seventy-five institutions in FY 1995. The FY 1995 SFA funding for all institutions audited by the 36 high volume IPAs was approximately $1.3 billion.

For each of the SFA audits where we noted audit deficiencies, we issued a letter to the IPA with specific recommendations for corrective action. For those audits where we identified significant inadequacies, we have, or are in the process of referring the IPAs to

the appropriate State Board of Accountancy, and to the AICPA for possible disciplinary action. We will continue to monitor these and other audits submitted to the Department.

GOAL 2: PROGRAMS AND OPERATIONS INTEGRITY

OIG's work discloses significant fraud, waste and abuse; results in enforcement and corrective actions; and promotes deterrence.

Focus on Complex Investigations

Over the last several years, the OIG has increasingly focused its investigative resources on the pursuit of complex, resource-intensive, financial fraud investigations involving postsecondary institutions and lenders. This is the area where we believe our enforcement efforts are having the most impact in combating fraud in the Department's student aid programs.

In pursuing this strategy, we are not overlooking the problem of individual beneficiary fraud; rather, we are addressing it even more effectively by identifying delivery systems and program weaknesses that make the fraud easier to commit, and documenting those weaknesses through national investigative projects. Three such projects are currently underway. During these investigations, where we have identified systemic weaknesses and vulnerabilities to fraud in the Department's programs and delivery methods, we have notified ED management officials. The following pages provide a synopsis of these projects. (Highlights of specific investigative cases resulting in prosecutive actions this reporting period may be found in Abstract 2, *"Significant Prosecutive Actions Resulting from OIG Investigations."*)

SFA MARKETING COMPANY/CONSULTANT FRAUD

We are conducting a number of criminal investigations targeting individual consultants and/or companies marketing SFA guidance and application preparation to mostly middle and upper-income students and parents. In many instances these borrowers, because of their income level, are not eligible for many of the federal loan and grant programs.

Major fraud cases involving student aid consultants

We are currently involved in five major fraud cases involving schemes by student aid consultants that have resulted in several federal indictments to date. In one case, an individual self-employed as a financial aid consultant may have assisted some 700 clients in defrauding the Pell Grant Program by using various falsified financial documents. In another case, a person who owned a financial aid consultant business in Michigan and Alabama charged clients a fee of between $275 and $350 for assistance in supplying universities and the Department of Education with false income information on

behalf of the clients. This financial aid consultant advised more than 300 clients.

Systemic weaknesses explored

Based on the case examples cited in the preceding paragraphs and other ongoing casework, we believe the problems surrounding SFA entrepreneurs are more extensive than is readily apparent. We are exploring the systemic program weaknesses that facilitate this fraudulent activity, and are attempting to develop recommendations to strengthen internal controls and oversight procedures.

Prosecutorial methods vary

We have been using a variety of prosecutorial methods in an effort to address this fraudulent activity. While the individual consultants are criminally prosecuted, we have successfully pursued many of the consultants' clients under the federal Affirmative Civil Enforcement program and through the use of pretrial diversions.

The use of these prosecutorial options has resulted in substantial monetary recoveries. These recoveries include both the federal education dollars illegally obtained by the clients, and the heavy monetary penalties assessed as a deterrent.

FOREIGN SCHOOL PROJECT

The OIG has assembled a team of special agents for the purpose of carrying out a proactive investigative initiative designed to identify Federal Family Education Loan Program (FFELP) borrowers who defrauded the program by falsely claiming attendance at foreign schools. The purposes of this initiative are to identify and prosecute individual recipient fraud cases, to identify problem foreign schools and refer them to Department management officials for appropriate administrative action, and to recover funds disbursed to ineligible borrowers. Additionally, we have made written recommendations to Department officials on ways to eliminate fraud and abuse in the foreign-school arena.

Increase in foreign-school attendance by FFELP borrowers

Through analysis of available data, we detected an increasing number of individuals obtaining FFELP loans by claiming attendance at foreign schools. This number has increased each academic year between 1993 —when the number of students was 4,595 —and academic year 1997, when the number of students climbed to 10,715.

Along with the increased number of individual borrowers claiming attendance at foreign schools, the loan volume rose to more than $200,000,000 in academic year 1997. The largest loan dollar volume is currently concentrated in the Caribbean island nations of Dominic and Grenada, with Mexico ranking number three in dollar volume. In the Dominican Republic, the volume of student aid has increased steadily since academic year 1993, when it was $2,800,000. By academic year 1997, the total had climbed to $18,200,000.

Current investigative efforts

We are continuing our efforts to identify and investigate FFELP borrowers who have received funds by falsely claiming foreign-school enrollment. We are opening an increasing number of criminal investigations targeting suspected individuals, and we are looking closely at foreign schools in the Caribbean and Mexico.

Statutory, regulatory and programmatic deficiencies

In conjunction with our investigative efforts, we have identified serious statutory, regulatory and programmatic deficiencies relative to FFELP borrowing at foreign institutions. These deficiencies expose the FFELP to abuse and fraud. The OIG has identified deficiencies/weaknesses in the following areas.

- ☆ verification of enrollment
- ☆ disbursement process
- ☆ determination of borrowers' eligibility
- ☆ standards of administrative and financial capability on the part of foreign schools
- ☆ oversight of the foreign schools

We have on two occasions submitted written reports to Departmental program officials detailing our findings and making program improvement recommendations.

COLLEGIATE ATHLETIC STUDENT FUNDING PROJECT

The purposes of this national investigative project are:

- ☆ to determine if schools are complying with federal laws and regulations, and
- ☆ to determine if any abusive situations are present that may be indicative of fraud, illegal acts or other irregularities on the part of student athletes and/or school officials.

This initiative is designed to identify student athletes who were not eligible for federal financial aid, but received aid by providing the Department of Education with false information on federal aid applications. The project is also designed to determine what, if any, role school athletic coaches and financial aid administrators played in the fraudulent activity exhibited by their student athletes. We have refocused our present efforts in this area to address schools that have self-reported as a result of our initial effort.

College Work-Study Program, correspondence courses targeted

As part of this initiative, we also are looking closely at student athletes participating in the College Work-Study Program, attempting to identify those who were not actually working during the hours indicated on their time cards. We are looking at those instances where athletic coaches may have certified athletic contests and practices as paid "work study."

Some investigative findings indicate that student athletes have used mail-in correspondence courses to increase their grade-point averages to secure athletic eligibility. The OIG's investigation will determine if this situation affected students' eligibility for federal student financial aid and whether it was appropriate.

Analysis of financial data underway

We have developed a systematic plan to identify fraudulent SFA applications submitted by or on behalf of student athletes to obtain federal student aid. We are in the process of analyzing financial aid data. To identify potential cases, a team of OIG analysts and special agents is conducting detailed analyses of Student Aid Reports, aid applications, and other financial documentation. Documentation has been obtained from a variety of sources, including several Departmental Multiple Data Entry contractors.

P.L. 95-452 Reporting Requirements

Sections 5(a)(1) and 5(a)(2) Significant Problems, Abuses and Deficiencies

- Significant Audits and Audit-related Activities 2-8, 12-22
- Significant Prosecutive Actions Resulting from OIG Investigations 9-11, 23-35

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Section 5(a)(4) Matters Referred to Prosecutive Authorities 46

Sections 5(a)(5) and 6(b)(2) Summary of Instances Where Information Was Refused or Not Provided*

Section 5(a)(6) Listing of Audit Reports

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Section 5(a)(8) Audit Reports Containing Questioned Costs

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Section 5(a)(9) Audit Reports Containing Recommendations That Funds Be Put to Better Use

- Inspector General Issued Reports with Recommendations for Better Use of Funds 43

Section 5(a)(10) Summary of Unresolved Audit Reports Issued Prior to the Beginning of the Reporting Period

- Unresolved Reports Issued Prior to October 1, 1997 44

Section 5(a)(11) Significant Revised Management Decisions*

Section 5(a)(12) Significant Management Decisions with Which OIG Disagreed*

*We have no instances to report.

Abstract 1

SIGNIFICANT AUDITS AND AUDIT-RELATED ACTIVITIES

October 1, 1997 – March 31, 1998

NOTE: The amounts reported by auditors for the reports described below are subject to further review and final determination by Department officials.

ADMINISTRATION OF THE WILLIAM D. FORD FEDERAL DIRECT LOAN PROGRAM BY SCHOOLS

ACN 03-60009 October 15, 1997

Our audits of 16 schools participating in the Direct Loan Program disclosed weaknesses in the administration of the program at the individual schools. Since the 16 schools were a representative sample of schools participating in the program, it is our opinion that the conditions we found at these schools are very likely to exist at other schools.

The objectives of our audits were to determine whether schools were adhering to program requirements with respect to program administration and funds accountability. Our audits disclosed weaknesses in the following areas:

1) Student Status Reporting. Fourteen of the 16 schools visited had status data that differed from that in the Direct Loan Servicing System (DLSS), and all 16 schools had discrepancies between information contained in their records and what was recorded on the National Student Loan Data System (NSLDS). These problems appear to have been caused by:

   a) schools not reporting data;

   b) schools reporting inaccurate data;

   c) the DLSS not updating its records with the reported changes; and/or

   d) the NSLDS not being fully functional.

   Without correct student status data, the servicer cannot convert borrowers to repayment at the correct time. In addition, loan billings may not include the correct principal and interest amounts.

2) EDP Processing Controls. Ten of the 16 schools lacked adequate electronic data processing controls over the administration of the program. While we did not discern any serious effects yet from the lack of these controls at the schools we audited, the risk of such effects over time is a concern. Without proper controls, the Direct Loan records are vulnerable to unauthorized actions, representing a serious risk to the records' integrity and reliability.

3) Loan Record Accuracy. Schools were not keeping accurate loan records. Four of the 16 schools had discrepancies between loan balances recorded on their internal student accounts system and their Direct Loan system; 12 of the 16 had discrepancies between transaction dates recorded on their internal student accounts system and those recorded on the students' loan origination records on the schools' Direct Loan system. As a consequence, students could have a loan liability that is actually larger or

smaller than what it should actually be. Interest subsidy calculations could also be incorrect as they are based upon reported disbursement dates .

We noted other weaknesses in the areas of cash management, reconciliation, written policies and procedures, and quality assurance. To address the weaknesses we found, we made a number of recommendations to help the Department improve its monitoring of participating schools and enforcement of program requirements.

◊ ◊ ◊

AUDIT OF THE DIRECT LOAN PROGRAM ADMINISTERED BY DOWLING COLLEGE

ACN 02-70001 October 6, 1997

Our audit disclosed that Dowling College maintained an excess balance of program cash, which for a period exceeded $7,000,000. Our audit identified several additional weaknesses at the school, as follows:

1) Dowling did not perform reconciliations of school and servicer loan data.

2) Dowling did not submit original copies of promissory notes and loan disbursement records within 30 days as required by program regulations.

3) Dowling has not submitted an acceptable report confirming student enrollment status.

To correct the weaknesses identified, we recommended that the Assistant Secretary for Postsecondary Education require Dowling to:

1) reimburse the federal government approximately $154,000 for interest expenses the Department incurred by making excess funds available to the school;

2) ensure that loan records on the school's database system reconcile with information on the Direct Loan servicer's data system;

3) ensure that it transmits promissory notes and loan disbursement records timely; and

4) ensure that it submits Student Status Confirmation Reports timely and accurately.

We also noted that:

1) Dowling needs to improve its ability to identify credit balances in student accounts and ensure that balances arising from the payment of federal aid are remitted to students within the time frames established by program regulations.

2) Dowling needs to ensure that access to program data is appropriate and in compliance with internal system security policies.

◊ ◊ ◊

THE PUERTO RICO DEPARTMENT OF EDUCATION MUST INSTITUTE A TIME DISTRIBUTION SYSTEM

ACN 02-50200 November 14, 1997

The objectives of the audit were to determine whether the Puerto Rico Department of Education (PRDE) had a system in place to distribute Chapter 1 personnel charges properly. We found that PRDE does not have accounting policies and procedures in place for time distribution of its employees who work on one

or more programs. As a result, the Chapter 1 program is being overcharged for salaries while other state and federal programs are being undercharged. PRDE agreed with the finding and expects to implement a time distribution system during the 1997/98 award year.

◊ ◊ ◊

THE UNIVERSITY OF PUERTO RICO–RIO PIEDRAS' ADMINISTRATION OF THE FEDERAL DIRECT LOAN PROGRAM NEEDS MAJOR IMPROVEMENTS

ACN 02-70003 March 11, 1998

The objectives of the audit were to determine whether the University of Puerto Rico–Rio Piedras (UPR) properly administered, accounted for, and expended Federal Direct Loan Program funds in accordance with requirements specific to this program. We found that, although UPR did not properly administer and account for Federal Direct Loan Program funds, there were no indications that UPR misused these funds. Serious deficiencies which, however, require immediate attention include the following.

1) UPR did not identify and report to the Direct Loan servicer all loan disbursements and loan cancellations recorded on students' ledgers. The audit identified approximately $1.3 million in loan disbursements and $19,949 in loan cancellations which must be reported to the servicer for the 1995/96 award year.

2) UPR did not complete 1995/96 and 1996/97 reconciliations. At the time of the audit, UPR was still attempting to complete the November 15, 1995 reconciliation. Further, UPR has not reconciled 95 percent of the 1996/97 transactions.

3) UPR did not identify and report all student status changes to the Direct Loan servicer. The audit identified 1995/96 Direct Loan recipients who should be in a repayment status but are recorded at the servicer as "in-school."

UPR agreed with the findings reported and has already taken action on the recommendations we provided. UPR has been working with the Department of Education Client Account Management staff and the Direct Loan Servicing Center to identify and report loan disbursements and loan cancellations; reconcile loan data; and identify and report student status changes. We have recommended that UPR obtain an independent assessment to determine if the new control procedures for each finding are sufficient.

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AUDIT OF THE WILLIAM D. FORD DIRECT LOAN PROGRAM ADMINISTERED BY TENNESSEE STATE UNIVERSITY

ACN 04-70004 January 16, 1998

The objectives of the audit were to determine whether Tennessee State University administered the Federal Direct Loan Program in accordance with applicable program requirements. Our audit identified needed improvements in posting and reporting loan transactions, processing and reporting loan adjustments and cancellations, reporting changes in student status, and reconciliations. We found that the university encountered problems administering the program in its first year, 1995-96. In 1996-97, the university improved substantially and managed its Direct Loans in accordance with most program requirements.

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AUDIT OF THE DISTRICT OF COLUMBIA PUBLIC SCHOOLS' ADMINISTRATION OF THE SAFE SCHOOLS GRANT

ACN 03-70001 January 23, 1998

The District of Columbia was designated by the Safe Schools Act of 1994 (the Act) as a National Model City to carry out a comprehensive program to address school and youth violence. To conduct the program, the District of Columbia Public Schools (DCPS) was awarded a $1,000,000 grant, as directed by the Act. The grant period was from November 1994 to October 1996.

Our audit disclosed significant management control weaknesses and mismanagement of the grant funds. As a result of the audit, we have determined that DCPS expended $210,651 of the grant funds for services that were not reasonable, allowable, or allocable grant expenditures. We also noted that DCPS did not have adequate policies and procedures in place and was making expenditures without adequate supporting documentation.

We recommended that the Office of Elementary and Secondary Education (OESE) require DCPS to repay $195,561 of questioned costs [which includes $117,024 in supplanted costs and $74,337 in unallowable costs], $5,480 of unsupported costs, and $9,610 of other recommended recoveries. We also recommended that OESE require DCPS to develop written policies and procedures.

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REVIEW OF COSTS INCURRED BY THE UNIVERSITY OF NORTH CAROLINA, GREENSBORO, AND THE SOUTHEASTERN REGIONAL VISION FOR EDUCATION UNDER THE U.S. DEPARTMENT OF EDUCATION'S REGIONAL EDUCATIONAL LABORATORIES CONTRACT

ACN 04-70015 February 25, 1998

The objectives of our audit were to determine whether costs incurred by the Regional Educational Laboratory and its subcontractors complied with applicable federal laws and the terms of the contract. Our review identified the following weaknesses:

1) The University of North Carolina, Greensboro could not provide assurances that approximately $2.3 million in salaries, fringe benefits and related indirect costs between December 1, 1995 and November 30, 1996 were allocated in direct relationship to the time and effort made toward the Regional Educational Laboratories contract.

2) The Department was unable to make an informed decision regarding $415,000 of proposed subcontract actions because the University of North Carolina, Greensboro did not obtain cost information from prospective subcontractors as required by the Federal Acquisition Regulation.

The University of North Carolina, Greensboro has taken action or has planned actions that generally should correct the cited conditions. However, our report recommended that the Department require the University of North Carolina, Greensboro to submit additional information for evaluation and assurance of compliance with appropriate federal regulations.

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STRATEGIC PLANNING AND PERFORMANCE MEASUREMENT FOR GUARANTOR AND LENDER OVERSIGHT SERVICE ACTIVITIES CAN HELP FOSTER ACHIEVEMENT OF AN EFFICIENT AND EFFECTIVE FEDERAL FAMILY EDUCATION LOAN PROGRAM

ACN 05-70004 November 12, 1997

Our review found that the Guarantor and Lender Oversight Service (GLOS) has an opportunity to use a strategic plan and performance-measurement system to help ensure a high level of performance. A number of events and issues created this opportunity. First, the Government Performance and Results Act of 1993 (GPRA) requires strategic planning and performance measurement at the department and program levels. Second, during fiscal year 1997, the Office of Postsecondary Education moved the Guarantor and Lender Review Branches under the direction of the GLOS Director. Finally, GLOS has limited resources, widespread oversight responsibilities, and changing priorities, meaning that it must maximize its planning and measurement resources and activities.

While GLOS has an established mission, follows a work plan to guide its activities, and uses some performance indicators to target entities for review, it does not have a formal strategic plan and performance measures that address all aspects of its operations. (When GLOS developed its mission and work plan, the Department and OPE had not finalized their strategic plans and performance indicators.) We believe that GLOS should:

1) consider developing a strategic plan and performance measurement system to help ensure that its goals and objectives support, and are properly linked to, the goals established in OPE's and the Department's strategic plans;

2) establish a performance measurement system; and

3) obtain management support and commitment.

On behalf of the Deputy Assistant Secretary for Student Financial Assistance Programs, the Director of GLOS generally concurred with the finding and recommendations. The Director's response indicated that GLOS has started to implement corrective action for the first recommendation, plans to implement corrective action for the second recommendation, and completed corrective action for the third recommendation.

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REVIEW OF INDIRECT COSTS CLAIMED OHIO — REHABILITATION SERVICES COMMISSION FISCAL YEARS 1993 AND 1994

ACN 05-70017 November 21, 1997

Our review of indirect costs claimed by the Ohio Rehabilitation Services Commission (ORSC) for federal fiscal years ended September 30, 1993 and 1994 found that ORSC billed federal programs using provisional indirect cost rates that turned out to be higher than the final rates negotiated for those periods. The allowable recovery for the two-year period, based on the final indirect cost rates, was $13,773,251. By using provisional rates, ORSC actually billed programs $15,463,402. As a result, ORSC overclaimed indirect costs of $1,690,151 in fiscal years 1993 and 1994. The overclaimed amount represents excessive reimbursement of $1,151,941 from the Department of Health and Human Services (HHS) and $538,210 from the Department of Education.

ORSC obtained funds for three programs—the Bureau of Disability Determination (BDD), which is an HHS program, and the Bureau of Vocational Rehabilitation (BVR) and Bureau of Service for the Visually Impaired (BSVI), which are Department of Education programs. In 1993, ORSC billed indirect costs for

only the BDD program because it billed all costs for the BVR and BSVI programs directly. In 1994, ORSC billed indirect costs for all three programs.

ORSC officials said they did not make the required adjustment because they wanted to establish a reserve fund to solve a cash-flow problem. The officials indicated they need reserve funds to cover incurred costs until funds are collected from the direct cost centers. An ORSC official stated that the overclaims are not in an interest-earning account.

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CENTRAL STATE UNIVERSITY NEEDS TO IMPROVE ITS CONTROLS OVER THE FEDERAL WORK-STUDY PROGRAM

ACN 05-80002 March 16, 1998

Our limited-scope audit at Central State University (CSU), Wilberforce, Ohio, identified weaknesses in controls related to: 1) time conflicts between hours worked and class hours scheduled, and 2) students not being paid for all hours worked. These weaknesses could adversely affect CSU's administration of the Federal Work-Study (FWS) program.

Our review found that FWS time sheets sometimes showed conflicts between reported hours worked and scheduled class hours. We randomly selected for review 34 of 342 students who received FWS in the Spring 1997 quarter and found that 23 (67 percent) submitted time sheets reporting that they had worked during scheduled class hours. We also randomly selected for review 38 of 374 students who received FWS in the Spring 1996 quarter and found that 27 (71 percent) submitted time sheets reporting that they had worked during scheduled class hours. We believe that CSU needs to establish a policy prohibiting students from working during scheduled class hours and implement controls to ensure that the policy is followed.

We also found that CSU did not pay students for all the FWS hours they worked. Of the 38 randomly selected students who received FWS in the Spring 1996 quarter, 12 (32 percent) did not get paid for all the hours they worked. We found that CSU lacked controls to ensure that students were paid for work performed. In addition, CSU apparently did not understand the regulations pertaining to hours worked and related earnings in excess of awards. We recommended that OPE instruct CSU to establish controls that will ensure that students are paid for work performed.

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CENTRAL STATE UNIVERSITY SUPPORT SERVICES PROGRAM

ACN 05-80005 March 16, 1998

Our limited-scope audit of Central State University's administration of its $282,573 Student Support Services Program grant identified one instance of noncompliance. We found that CSU used $36,366 of grant funds to pay for instructors' salaries and an undetermined amount of grant funds for related fringe benefits for a special class called *Speculations*. According to 34 CFR 646.30(a)(3), costs associated with remedial and special classes are allowable under the grant, but only if project participants are not charged tuition for those classes. Because CSU charged tuition for *Speculations*, the costs are not allowable charges against the grant. We recommended that OPE instruct CSU to refund $36,366 of grant funds used to pay instructors' salaries relating to the *Speculations* class.

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REVIEW OF CHARGES FOR UNEMPLOYMENT COMPENSATION INSURANCE

ACN 06-60010 January 28, 1998

Our review disclosed that the New Orleans Public Schools (NOPS) charged $2,265,212 in unreasonable unemployment compensation insurance costs to Department of Education programs for state fiscal years 1992 through 1996. NOPS did not use a reasonable methodology for charging Department programs. Although personnel associated with Department programs accounted for only 8.4 percent of NOPS payroll costs, Department programs were charged 48 percent of the total unemployment compensation insurance costs.

We recommended that the Secretary require the Louisiana Department of Education to:

1) refund $2,265,212 to the U.S. Department of Education; and

2) ensure that only a reasonable proportion of unemployment insurance costs is charged for periods after FY 1996.

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PROFESSIONAL JUDGMENT AT YALE UNIVERSITY

ACN 06-70005 March 13, 1998

Our review found that Yale University used professional judgment to modify the statutory needs-analysis formula because it considered allowances in the formula to be inadequate. The modification included using data from another needs-analysis system the university used to award nonfederal aid.

The Higher Education Act does not grant financial aid administrators authority to make modifications to the statutory formula simply because they disagree with it. We questioned the professional judgment actions for over 40 percent of the 50 sample students reviewed. The questioned actions resulted in $5,469 of additional Pell Grants being disbursed in award years 1994-95 and 1995-96. Based on the sample results, we estimate that 225 students could have received $35,976 or as much as $101,432 in Pell Grant overpayments.

We recommended that Yale University:

1) establish procedures that will provide for the use of professional judgment *only* after determining that special circumstances exist on an individual student basis and the actions do not modify or replace allowances already considered in the statutory formula;

2) refund the $5,469 in additional Pell Grants disbursed as a result of the unreasonable professional judgment actions for the sample students; and

3) perform a 100 percent review of the professional judgment actions not included in our audit for award year 1994-95 through the current period, and refund any additional Pell Grants disbursed as a result of the unreasonable use of professional judgment (a statistically valid sample review may be substituted for a review of all actions).

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WESTED'S ADMINISTRATION OF THE REGIONAL EDUCATIONAL LABORATORY CONTRACTS

ACN 09-60009 March 31, 1998

The purpose of our audit was to determine whether costs incurred by WestEd and its subcontractors under the Regional Educational Laboratory contracts with the Office of Educational Research and Improvement complied with applicable federal laws and regulations and the terms of the contracts. Our audit disclosed that WestEd did not comply with certain federal laws and regulations in managing its Regional Educational Laboratory contracts. We also found that WestEd's indirect cost rates negotiated by the U S. Department of Education do not reflect all of its indirect costs. Our review identified that WestEd:

1) leased space to a radio station and a computer facility in buildings purchased with federal funds for educational research purposes and retained profits from the leases. WestEd's fund balance included about $627,000 of lease profits earned over the two-year period from December 1994 to November 1996;

2) used lease-purchase agreements that resulted in excessive charges for furniture, equipment, and building improvements. The interest portion of the lease-purchase payments was excessive since WestEd had funds available in its reserve to make cash purchases. WestEd also accelerated charges to the contract for the purchases and charged interest to the contract during periods when interest was an unallowable cost;

3) improperly billed the contract for indirect costs on work performed by subcontractors;

4) charged the contract for indirect costs that were not necessary for the performance of federal contracts; and

5) gave the impression that indirect costs remained fairly constant when in fact the indirect cost rate increased 29 percent over the past three years. For fiscal year 1996, WestEd's actual indirect cost rate was 45 percent rather than its stated rate of 12.8 percent.

We recommended that the Department require WestEd to use federally purchased property and federal funds for their intended purposes, and to use federal funds efficiently. We also recommended that WestEd be required to return about $131,000 in federal funds that were used for unallowable interest, improperly computed indirect costs, and other unallowable direct costs. We further concluded that WestEd could use as much as $2.6 million of accumulated rental profits to reduce program expenditures or further program objectives, leaving about $300,000 of rental profits available for these purposes annually in future years.

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THE STATUS OF EDUCATION'S IMPLEMENTATION OF THE CLINGER-COHEN ACT

ACN 11-70007 March 1998

Our audit determined that the Department has not achieved full compliance with important Clinger-Cohen Act (CCA) requirements. The CCA requires executive agencies to adopt specific practices to improve the management of information technology. Specifically, the Department has not:

1) implemented a capital planning and investment control process that meets CCA requirements;

2) developed and implemented a sound and integrated information technology architecture;

3) reported significant deviations from goals related to information technology costs, performance, or schedules in an updated information resources plan; and

4) assessed the knowledge and skills of agency personnel related to information resource management and developed a plan to correct identified deficiencies.

The Department's future compliance with the CCA will be determined by the ability of the Office of the Chief Financial and Chief Information Officer (OCF/CIO) to establish a greater leadership role for information technology. The OCF/CFO can advance this leadership role through proactive efforts to implement the capital planning and investment control process and the Department-wide knowledge and skills assessments.

Our report provides recommendations to the Deputy Secretary and the Chief Financial and Chief Information Officer for achieving compliance with the CCA requirements and improving information management within the Department. These recommendations include the issuance of clear policies communicating the OCF/CIO's responsibility and authority; the development and submission of specific plans for meeting CCA requirements; and the identification and allocation of sufficient resources to implement these plans.

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THE STATUS OF THE U.S. DEPARTMENT OF EDUCATION'S READINESS FOR YEAR 2000

ACN 11-70011 March 1998

We conducted our audit to assess the completeness and appropriateness of the Department's Year 2000 project plans, and to determine whether the Department had included renovation and test plans for its mission-critical systems. Computer-system failures are likely to occur with computer systems that currently use a two-digit date field (i.e. "99" for the year 1999), since they will not recognize "00" as the year 2000. Without renovation, these systems may simply fail altogether or produce erroneous results when performing computations involving dates beyond 1999.

Based on our audit work, we concluded that the Department has not completed a comprehensive plan sufficient to prepare its systems adequately for the Year 2000. The Department's efforts have not kept pace with government-wide milestone dates. In September 1997, the Department received a failing grade on its Year 2000 project from the House Subcommittee on Government Management, Information and Technology. While the Department has made significant progress in the past several months, much work remains.

Our specific recommendations to Department officials to help ensure that the Department achieves compliance addressed the need for continuity of leadership and adequate resource commitment. We also recommended:

1) timely completion of the Department-wide Year 2000 comprehensive project management plan;

2) implementation of an outreach program to identify specific needs of the Department's data exchange trading partners and the establishment of individual testing dates for resolution of outstanding issues;

3) independent verification and validation of mission-critical systems planned for renovation or replacement during 1999; and

4) the development of contingency plans and obligation of funds to ensure that alternate processing methods are available which will enable the Department to continue its mission should a critical system fail.

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OFFICE OF INSPECTOR GENERAL PERSPECTIVE ON TITLE I OF THE VOCATIONAL REHABILITATION ACT OF 1973

ACN S14-70003 February 1998

This paper summarized the results of a series of audits we conducted covering the Vocational Rehabilitation Act of 1973, and made recommendations for legislative and internal improvements.

The issues and findings follow.

Legislative Recommendations

1) Change the Title I program allocation formula to better ensure that program funds are disbursed based on the actual location of individuals with disabilities.

2) If changing the formula is not feasible, then authorize research on the disbursement of Title I program funds to further study the equity of the allocation formula.

3) Allow the Department of Education's Rehabilitation Services Administration (RSA) to monitor states based on performance and risk data.

4) Require states to submit accurate and timely data under the Government Performance and Results Act (GPRA) by requiring certification that information reported to RSA is from information systems with adequate internal controls.

Other Recommendations and Findings

We reviewed the draft performance plans prepared to comply with GPRA and the evaluation standards for Designated State Units (DSU) required by section 106 of the Rehabilitation Act. Based on this review, we expressed concern that neither the plans nor the standards include sufficient measures of performance outcomes for individuals with severe (significant) disabilities, or measures the employment outcome rate for persons receiving services.

We found that when a DSU in Texas used performance measurement, the agency's ability to achieve a high level of employment outcomes for its clients improved significantly. Another review of a DSU revealed that one of the factors that contributed to successfully administering its Title I program was client monitoring during the period that the client received services.

Additionally, we examined the management practices within the Office of Special Education and Rehabilitation Services (OSERS). Our report suggested that OSERS review the need to maintain its three components as separate and distinct entities, consider delayering the current organization and become more customer-oriented, produce a strategy for eliminating duplicative planning and research functions, and develop a plan to address the future loss of resources within OSERS. We further recommended that OSERS develop a strategic information plan to identify the need for data, what data should be collected and how, and how it should be used.

Finally, we noted that differences in client characteristics may have had an impact on certain DSUs' employment outcome rates .

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COOPERATIVE AUDIT RESOLUTION AND OVERSIGHT INITIATIVE

As reported in previous *Semiannual Reports*, we have been working with an intra-departmental team on a wide-ranging project known as the Cooperative Audit Resolution and Oversight Initiative, or CAROI. The goal is to improve education programs and student performance at state and local levels through better use of audits, monitoring and technical assistance. Due to the number of inquiries and requests from states to participate in the CAROI process, we are working with the Department to streamline and institutionalize the process further. Following are the CAROI team's accomplishments during the reporting period.

#1: Create and Maintain a Dialogue with States

The CAROI team and ED program officers produced a question-and-answer document for national distribution which addresses the new IASA flexibility provisions. This guidance will assist SEAs and LEAs in implementing the new provisions, and provide criteria for auditors who review SEAs and LEAs. The team also made presentations at each of the three regional Improving America's Schools Conferences scheduled during this reporting period and addressed the National Title I Conference. In addition, the team established a CAROI Internet address to facilitate communication with our CAROI partners and disseminate information concerning the CAROI process.

#2: Work with States to Resolve Open Audits or Audits Under Appeal

The CAROI team reached an agreement with the Commonwealth of Pennsylvania resulting in the resolution of 119 single audit findings, covering audit years 1990 through 1996. CAROI project teams, composed of both Department and Pennsylvania officials, met during a five-month period to review the open findings in these audits and negotiate joint determinations. Several of the findings resolved in the Pennsylvania project had been in litigation for a number of years, which consumed resources from both the Department and Pennsylvania. Pennsylvania officials strongly endorsed the CAROI process and stressed the importance of other government entities' joining in similar projects. The OIG has initiated this effort by sending letters describing the CAROI process to the Department of Agriculture and the Commissioner of the Internal Revenue Service, and will be sending similar letters to other agencies.

#3: Improve the Single Audit Process

The team continues to work with state auditors from Washington and Georgia on a pilot project under the provision of the Single Audit Act Amendments. The goal of the pilot project is a comprehensive single audit report on how federal programs are managed at the local level. At present, the Department receives little information from the single audits conducted at most LEAs. These pilot projects would give federal program managers information on how federal programs operate at the local level.

#4: Coordinate Audits, Monitoring and Technical Assistance

The CAROI team is working with the Department in integrated reviews and other state program monitoring efforts. CAROI team members are working with program officials to ensure the linkage between audits, monitoring and technical assistance. CAROI members also briefed team members of the Department's Program Coordination Reviews on the CAROI process and its important connection with their efforts. The CAROI team also is participating as a member of the Department's Data Coordination group, which is considering more efficient and effective approaches to data-collection coordination and usage. CAROI members are working to ensure that information on oversight activities is available to individuals who need it to further promote the efficient and effective use of federal funds.

Abstract 2

SIGNIFICANT PROSECUTIVE ACTIONS RESULTING FROM OIG INVESTIGATIONS

October 1, 1997 – March 31, 1998

★ School Owners, Officials and Employees ★

Computer School Owners Allegedly Commit Conspiracy to Obtain $3.5 Million

ALAN FROST and ANNE FROST, officers and owners
Midland Career Institute (MCI)
Hammond, Indiana and *Port Richey, Florida*

THERESA LIA, president
American Micro Computer Systems
Port Richey, Florida

A federal grand jury in the Northern District of Indiana returned a 32-count indictment against Alan Frost and Anne Frost, officers and owners of Midland Career Institute, Inc. (MCI). The Frosts were charged with one count of conspiracy to commit student financial aid (SFA) fraud, fraud and swindles, wire fraud and bank fraud; nineteen counts of bank fraud; and twelve counts of SFA fraud. In addition, Theresa Lia, a co-conspirator and president of American Micro Computer Systems, was charged with one count of conspiracy.

The indictment alleges that the defendants conspired to aggressively recruit individuals at drug rehabilitation centers, welfare offices and in low-income housing projects. School employees admitted prospective students who had falsified ability-to-benefit test scores and then later falsified attendance records of individuals who never attended any classes. False documentation was placed in the students' files to make it appear that they were eligible to receive Pell grants.

This joint investigation with the FBI developed evidence by conducting a detailed analysis of more than two million records. Investigators determined that the fraud scheme caused MCI to wrongfully obtain in excess of $3.5 million in Pell Grant and FFELP funds which were not used for their intended purpose. A portion of the federal funds were converted to the personal use of the defendants. All three defendants have pled not guilty.

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Consultant Allegedly Assists Families in Submitting Fraudulent SFA Applications

ERNEST DALE BLEAM

Mulvane, Kansas

A federal grand jury in the District of Kansas indicted Ernest Dale Bleam on charges of student financial assistance fraud and aiding and abetting. Bleam, whose business card read, "I start when you are told: Sorry, you won't qualify for financial aid," has pled not guilty to the indictment. The indictment alleged that Bleam altered the financial information of his customers on Pell Grant applications. Bleam charged his customers a fee (based upon Pell Grant awards) of 10% for first-time applications and 5% for subsequent applications. Bleam supported the false statements by also altering copies of his clients' income tax returns. On occasion, Bleam would also falsify Pell applications to indicate that the student applicants were orphans or wards of the court in order to qualify the students as independent.

Based upon records obtained during the execution of a search warrant, this joint ED/OIG–FBI investigation identified Bleam's customers. Through a detailed analysis by the investigating agents, which included the gathering of records from numerous postsecondary schools, the review of ED databases and the verification of income, the Department of Justice (DOJ) has been aggressively pursuing Bleam's clients. To date, more than 180 clients have entered into Affirmative Civil Enforcement agreements with DOJ. In these agreements, Bleam's clients have acknowledged that fraudulent documents were submitted to ED and others in order to obtain Pell Grants. These agreements have resulted in settlements totaling over $1 million. An additional 400 clients have been contacted, meaning that the final amount of repayment could exceed $3 million.

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School Owner Fails to Refund FFELP Funds

SHARON D. ARNEY, owner

Cranford College

Hutchinson, Kansas

Sharon D. Arney pled guilty to five counts of SFA fraud in the District of Kansas, Topeka, Kansas, after a federal grand jury charged her with failing to make refunds for and on behalf of students who had attended Cranford College.

This joint ED/OIG–FBI investigation disclosed that some of the students who received Title IV financial aid at Cranford College withdrew from or stopped attending classes before completing their programs of study. Investigation revealed that during 1990, 1991, and 1992, Arney failed to pay approximately $146,704 in refunds on behalf of students who had withdrawn. The investigation also revealed that Arney made false statements to the Small Business Administration. Arney has pled guilty to five counts of SFA fraud and is awaiting sentencing in the District of Kansas.

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Researcher Bills ED and NIH for Same Study

GREGG M. STUM, director
GMS Systems
Newark, Delaware

Gregg M. Stum pled guilty to an information that was filed in U.S. District Court in the District of Delaware. The information charged Stum with one count of mail fraud for submitting research reports relating to a study titled "A Sign Language Telephone for the Hearing Impaired" to ED. Investigation, jointly conducted by the Postal Inspection Service and HHS/OIG, determined that Stum submitted invoices to ED totaling $30,000. Stum had previously submitted the same reports to the National Institutes of Health (NIH), for which he obtained $50,000 in grant funds. Stum had entered into contracts with ED and NIH, funded with Small Business Innovation Research funds, to conduct research on telephones for the hearing impaired.

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School Official Draws Pell Funds Fraudulently

An officer of a proprietary school in Chicago, Illinois, agreed to a pretrial diversion (PTD) in the Northern District of Illinois regarding his commission of wire fraud and misapplication of Pell Grant funds. The conditions require that he not violate any laws for a period of 12 months and that he report to a PTD supervisor as directed.

An ED/OIG investigation determined that, in August 1992, the officer instructed the school's vice-president to request $40,000 in Pell Grant funds, and transfer the funds into the school's operating account to pay outstanding and delinquent bills. At the time the money was requested, the school did not have eligible students enrolled in the program and was not eligible for the funds. After being notified of an ED/OIG investigation, the officer reimbursed ED $40,000.

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PLUS Loan Fraud Ring Nets $272,000 in Southern Florida

RAFAEL RAFCA, former financial aid officer
ENRIQUE GONGORA, GLADYS YERA, MIRTHA DUQUE, JORGE DIAZ,
TANIA DIAZ, LETICIA VALDES and KARY SILVA

A Southern District of Florida grand jury returned a 23-count indictment charging bank fraud and conspiracy against eight individuals for their role in a student loan fraud ring. ED/OIG agents arrested seven of the defendants. The group had obtained the school codes of at least eleven colleges and universities in the Southern Florida area through Rafael Rafca, the former financial aid officer at Politechnical Institute of Florida. Using these codes, the group submitted approximately 125 applications with false parent, student, and school information to obtain Parent Loans for Undergraduate Students (PLUS loans).

The multi-agency investigation, which involved the use of handwriting and bank-account analyses and surveillance, revealed that approximately $272,000 in disbursements were made as a result of the scheme. Another $220,000 in scheduled disbursements were prevented as a result of the investigation.

In an attempt to avoid detection, group members opened bank accounts using fictitious identities, and rented mail boxes where many of the checks were delivered and retrieved. These checks were either deposited into the various bank accounts or cashed at area check-cashing establishments.

Two members of the group have pled guilty. Gladys Yera pled guilty to eleven counts of bank fraud and one count of conspiracy. Mirtha Duque pled to two counts of bank fraud and one of conspiracy.

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School Employee Allegedly Fraudulently Certifies FFELP Applications

CYNTHIA JACKSON, secretary

St. Louis College of Pharmacy

St. Louis, Missouri

Cynthia Jackson was sentenced to 21 months of incarceration to be followed by two years of supervised probation. Jackson had earlier pled guilty to one count of SFA fraud after being indicted by a federal grand jury in the Eastern District of Missouri on one count of misapplication of ED funds. According to the indictment, Jackson, who was employed as a secretary in the financial aid office at St. Louis College of Pharmacy (SLCP), fraudulently applied for and received $7,800 in federal student loans.

Additionally, this joint ED/OIG–FBI investigation developed evidence that from October 1995 to February 1996, Jackson fraudulently certified 15 student loan applications. As a result, Jackson and nine other individuals received federal student loan funds totaling approximately $86,553. Investigation revealed that none of the individuals ever attended SLCP, and that none was therefore eligible to receive student loans. The majority of the nine individuals have admitted to receiving the loan proceeds without attending SLCP.

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School Employee Gets Kickbacks for Fraudulently Certifying FFELP Applications

CONNIE ANNE FREEMAN, associate director of financial aid

MARILYN GILMORE, former registrar employee

SHARON ALDRICH and WILLETTE W. LIPSCOMB, students

Houston-Tillotson College

Austin, Texas

Connie Anne Freeman, associate director of financial aid at Houston-Tillotson College (HTC), Austin, Texas, was sentenced in U.S. District Court, Western District of Texas, to five years probation and ordered to pay restitution of $193,717 to HTC after she pled to one count of conspiracy. The court also ordered Freeman to perform 150 hours of community service during her probation period.

Investigation disclosed that Freeman fraudulently obtained student loan proceeds by using a fictitious name and another individual's Social Security number. Freeman also admitted soliciting kickbacks from students at HTC to obtain Title IV funds totaling $72,395 by certifying students for loans they were ineligible to receive in return for a monetary fee.

The court also sentenced Marilyn Gilmore, a former registrar employee at HTC, to five years probation and ordered her to pay restitution in the amount of $18,000 to HTC. Gilmore had previously entered a guilty

plea to a one-count information charging false statements. Gilmore admitted paying Freeman $2,500 for fraudulently obtaining $18,000 in loan proceeds.

In related matters, a federal grand jury in the Western District of Texas returned a two-count indictment against Sharon Aldrich and a one-count indictment against Willette W. Lipscomb. Both individuals, students at HTC, are alleged to have fraudulently received Stafford Loans.

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School Employee Allegedly Falsely Certifies SFA Applications

PATRICE LEWIS

Lassen Community College Outreach Center — College Work-Study Program

Alturas, California

An information was filed in U.S. District Court, Eastern District of California, charging Patrice Lewis with one count of mail fraud. The information alleged that while employed at the College Work-Study Program at Lassen Community College's Outreach Center, Alturas, California, Lewis falsified enrollment applications and SFA applications for eight individuals. At the time of the falsifications, Lewis allegedly knew full well that the eight individuals were not students at Lassen Community College.

According to the information, as a result of her fraudulent Pell Grant and student loan applications, Lewis obtained approximately $38,848 for herself and others.

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Virgin Island Advocacy Executive Director Embezzles ED Funds

CAMILLE AYALA PITTERSON, former executive director

Virgin Islands Advocacy Agency

St. Croix, U.S. Virgin Islands

Camille Ayala Pitterson, former executive director of the Virgin Islands Advocacy Agency, pled guilty to one count of embezzlement after a federal grand jury in St. Croix, U.S. Virgin Islands, indicted her on one count of embezzlement and thirteen counts of wire fraud in connection with the alleged misuse of ED and HHS funds. Pitterson devised a scheme to use $6,888 of federal funds illegally for personal purposes by means of false and fraudulent representations, thus defrauding the disabled residents of the Virgin Islands. The Virgin Islands Advocacy Agency received ED funds for the purpose of providing assistance to disabled persons in their relationships with projects, programs and facilities provided by the Government of the Virgin Islands.

★ Civil Actions ★

College Diverts Pell Funds to Student Athletes

BREWTON-PARKER COLLEGE

Y. Lynn Holmes, president

Thomas R. Hartley, vice president of fiscal affairs

Cecelia Hightower, financial aid director

Mount Vernon, Georgia

A four-count civil complaint was filed in the Southern District of Georgia against Brewton-Parker College, Thomas R. Hartley, Cecelia Hightower and Y. Lynn Holmes. The complaint includes charges of making false claims against the United States, making false statements, breach of contract, and unjust enrichment.

The complaint states that the defendants presented 1,871 false claims to the United States and caused the United States to suffer damages of over $2.1 million in Pell Grant and Supplemental Educational Opportunity Grant funds. According to the complaint, Brewton-Parker schemed to defraud the government by drawing down Pell funds in the names of incarcerated students who either had withdrawn or did not re-enroll in eligible courses, then disbursed the funds to student athletes who were not eligible for Pell funds. Brewton-Parker also allegedly used federal monies to fund athletic scholarships for student athletes—members of the college's champion baseball team—who were ineligible to receive federal financial aid.

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Title IV Funds Returned to ED

BANK ONE

a.k.a. First Huntington National Bank

Huntington, West Virginia

Pursuant to a settlement agreement, Bank One, formerly known as First Huntington National Bank, returned $92,946 of Title IV funds to ED that the bank seized in December 1986 after Century College, Huntington, West Virginia, filed for bankruptcy. The bank seized the funds since Century College had outstanding balances on three loans from Bank One.

In 1988, the owner of Century College, Philip Neibergall, entered a plea of guilty to two of twenty-eight fraud counts. An ED/OIG investigation disclosed that Neibergall failed to refund approximately $887,635 in SFA funds that he used for personal gain. Neibergall was sentenced to two years of imprisonment and ordered to pay $100,000 in restitution. After the guilty plea, negotiations continued with the bankruptcy court and Bank One to obtain the return of the federal SFA funds to ED.

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JAMES HARDY

Joliet, Illinois

A civil complaint charging James Hardy with violating the False Claims Act was filed in the U.S. District Court, Northern District of Indiana. Investigation determined that Hardy had defaulted on a student loan

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in the late 1980s. Hardy failed to disclose his student loan default in subsequent applications for federal financial aid related to his attendance at Michiana College and Bethel College. Hardy subsequently obtained Pell Grant funds and additional student loans.

Hardy agreed to the allegations stipulated in the complain. The court entered a civil judgment and ordered Hardy to pay $15,942 plus interest. The OIG identified Hardy's fraudulent activity as part of the ongoing Indiana Default Project.

★ Other Investigative Cases ★

MOHAMMAD BILAL AFIF IBRAHIM

OIG Foreign Schools Project

Houston, Texas

A U.S. district court jury in the Southern District of Texas, Houston, Texas, found Mohammad Bilal Afif Ibrahim guilty of all charges included in a 46-count indictment. Ibrahim—who was indicted by a federal grand jury in October 1997 on 20 counts of student loan fraud, 20 counts of mail fraud, 5 counts of bank fraud and one count of criminal asset forfeiture—failed to appear in court during the second week of trial and is currently a fugitive.

A joint ED/OIG–Postal Inspection Service investigation disclosed that Ibrahim received 22 loans of $18,500 each, totaling $407,000 in a two-year period. The loans, which were guaranteed by five different guaranty agencies, were obtained by Ibrahim from five different banks in the names of five different family members. The loan applications contained numerous false statements, including the forgeries of school officials from a foreign medical school in the Dominican Republic. Through the use of consensual monitored telephone conversations, handwriting analysis and other investigative techniques, Ibrahim was identified as the recipient of the loan funds. Ibrahim used the funds to gamble and support a lavish lifestyle.

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VICKI GOODSON, bookkeeper/secretary

Montgomery County Board of Education

Montgomery, Alabama

Vicki Goodson, former bookkeeper/secretary with the Montgomery County, Alabama, Board of Education, pled guilty in the Middle District of Alabama to four counts of theft of program funds. Goodson had been previously indicted by a federal grand jury in October 1997. The grand jury alleged that Goodson had embezzled more than $298,000 in federal funds from the Title 1, Chapter 1, Drug-Free Schools, Goals 2000 and Adult Education programs. This joint ED/OIG–FBI investigation revealed that, since 1993, Goodson had embezzled 87 vendor checks and used the funds for her own personal gain.

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TALMADGE GRAHAM

Webster University

St. Louis, Missouri

A federal grand jury in the Eastern District of Missouri indicted Talmadge Graham on four counts of SFA fraud and four counts of false statements. The indictment occurred approximately one month after Graham was arrested while attempting to receive a fraudulent student-loan disbursement check. Graham is alleged to have enrolled in a Webster University graduate program by submitting fraudulent undergraduate transcripts. Purportedly, Graham also used four assumed identities when he applied for approximately $92,500 in SFA funds and fraudulently received more than $22,000. Four search warrants have been executed during this joint ED/OIG–FBI investigation.

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ROBERT L. PATTERSON, U.S. Postal Service employee

Northern Indiana Student Loan Default Project

Gary, Indiana

Robert Patterson, a U.S. Postal Service Employee, pled guilty in the Northern District of Indiana to one count of student financial assistance fraud. Patterson fraudulently obtained $55,000 in SFA loans and grants for his attendance at multiple postsecondary institutions by concealing prior defaulted student loans and by using his nephew's Social Security number. The OIG worked this spin-off case from the Northern Indiana Student Loan Default Project with the U.S. Postal Inspection Service.

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JAVIER IRRIBARRE

Big Rapids, Michigan

Javier Irribarre was sentenced to four months incarceration and ordered to pay restitution totaling $29,000 to the Department of Education and a fine of $100. Upon completion of his sentence, Irribarre, an illegal alien, faces deportation proceedings.

Irribarre had earlier pled guilty to one count each of SFA fraud and Social Security fraud. Through contacts made with Interpol, the Peruvian Government, and the U.S. Embassy in Chile and Uruguay, OIG investigation determined that Irribarre had falsely claimed to be a U.S. citizen born in the Commonwealth of Puerto Rico and fraudulently obtained a Social Security number. Irribarre made false statements on SFA applications from May 1992 through March 1997.

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FOLLY KUEGAH

New York, New York

A federal grand jury in New York, New York, returned a two-count indictment charging Folly Kuegah with using a false identity (name, Social Security number and date of birth) in applying for federal SFA while attending Technical Careers Institute. Kuegah was also charged with claiming a false identity on an application for a United States passport. Kuegah pled guilty and agreed to make restitution of $2,737.

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RENAYE L. MUHLENBECK

West Fargo, North Dakota

Renaye L. Muhlenbeck was sentenced in Federal District Court, District of South Dakota, to two years of incarceration on one count of making false declarations before a grand jury or court. Muhlenbeck was originally charged and pled guilty to one count of SFA fraud in November 1994. During sentencing and while under oath, Muhlenbeck perjured herself by falsely denying that she had committed additional acts of student aid fraud. OIG investigation disclosed that Muhlenbeck had indeed committed such acts both before and after being indicted on the original charge.

★ Update on Previously Reported Cases ★

OGLALA LAKOTA COLLEGE

Kyle, South Dakota

ARLYNN E. KNUDSEN, former vice president for business affairs

JERRY D. GODFREY

MARGARET MINKO-BADWOUND

Arlynn E. Knudsen, Jerry D. Godfrey and Margaret Minko-Badwound were sentenced in the District of South Dakota for their part in a conspiracy that involved over two million dollars embezzled from the Oglala Lakota College (OLC), located on the Pine Ridge Indian Reservation in Kyle, South Dakota.

Knudsen was sentenced to ten years of incarceration, followed by a three-year supervised probation period. In addition, the court ordered Knudsen to pay $2,657,032 in restitution to OLC. Knudsen's sentence was enhanced in part due to the fact that the embezzlement took place while he was on probation. Knudsen had previously been convicted of student loan fraud in the District of South Dakota in 1990.

Godfrey was sentenced to eight years and one month of incarceration, followed by a three-year supervised probation period. Godfrey was also ordered to pay $1,396,656 in restitution to OLC.

Co-conspirator Margaret Minko-Badwound was sentenced to two years of incarceration to be followed by three years of supervised probation. She was also ordered to pay restitution in the amount of $166,799. Minko-Badwound pled guilty to conspiracy, embezzlement and theft from an Indian tribal organization, theft concerning a program receiving federal funds, money laundering, structuring, and asset forfeiture. She also agreed to forfeit any property that may have been derived from the embezzled funds, including a 1994 Chrysler automobile. Minko-Badwound was married to John Badwound who was the OLC accounting manager from 1992 to 1995 and the acting vice president for business affairs at OLC in 1995.

A joint investigation by the FBI, the IRS, Interior/OIG and ED/OIG developed evidence that from 1991 to 1994, a total of $2.6 million in federal funds was embezzled from OLC. Knudsen was employed at OLC as vice president of business affairs and was identified as the primary organizer of the fraudulent scheme. Godfrey, a cousin to Knudsen, was never employed at OLC.

Knudsen, Godfrey and Minko-Badwound were among five people named in a 122-count indictment in February 1997. The investigation revealed that OLC checks were being written and deposited into bank

accounts of fictitious businesses and/or companies with whom OLC did little if any business. The embezzled funds were used to purchase real estate, stocks, automobiles, drugs, art work, liaisons with prostitutes and trips to Las Vegas.

Charges from the February 1997 indictment are still pending against John Badwound. Trial in U.S. District Court is scheduled to occur during the next reporting period. (*Semiannual Report No 34*, page 22, and *Semiannual Report No. 35*, pages 31 & 32)

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RON and VON THOMAS, owners

Ron Thomas Schools of Cosmetology

Baltimore, Maryland

Ron and Von Thomas, owners of the Ron Thomas Schools of Cosmetology, Baltimore, Maryland, were sentenced in U.S. District Court for their development of and participation in a scheme to defraud the Department of Education of over $2 million in Pell Grants. Von Thomas, who masterminded and directed the scheme, was sentenced to three years and one month of incarceration. Her husband, Ron Thomas, was sentenced to one year and one day of incarceration. Each was also given two years of supervised probation and ordered to pay a special assessment fine.

Shortly after the sentencing, the ongoing parallel civil proceeding was completed and a consent judgment was entered in U.S. District Court against Ron and Von Thomas and the Ron Thomas School of Cosmetology. The consent judgment, which holds the Thomases and the Ron Thomas School of Cosmetology jointly responsible for payment of $2 million to ED, requires them to liquidate all personal and real property except for property in Florida, two life insurance policies and a diamond ring. The Thomases are also prohibited from participating in any government contract and federal entitlement and non-procurement programs, including the Medicare and Medicaid programs. The civil portion of the case was initiated by a *qui tam* whistleblower lawsuit filed under the civil False Claims Act. Accordingly, the consent judgment ordered that the *qui tam* relator be entitled to 13 percent of the funds collected from the Thomases. (*Semiannual Report No. 35*, page 31, and *Semiannual Report No. 33*, page 18)

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PAUL and SALVATORE SCARDINO, owners

JOSEPH ROBERTS, school chain manager

BERTHA CRAIG, school manager

United Academies of Cosmetology

Chicago, Illinois

Paul and Salvatore Scardino, owners of the United Academies of Cosmetology (Mid-America and Riviera Beauty Schools), Chicago, Illinois, pled guilty to one count of wire fraud and agreed to pay restitution in the amount of $1.3 million. To ensure payment of the restitution, the defendants were ordered to issue quitclaim deeds to the United States for properties located in Chicago, Illinois and Phoenix, Arizona.

School chain manager Joseph Roberts also pled guilty to one count of wire fraud. A school manager, Bertha Craig, was convicted by a federal jury in November 1997 of two counts of wire fraud and one count of SFA fraud.

As previously reported, these pleas and convictions were the result of an extensive investigation by the OIG and the Postal Inspection Service, which led to a 54-count indictment in October 1996 of fifteen individuals. Ten of these individuals, including former recruiters, school managers and financial aid personnel, pled guilty prior to the Scardinos' pleas. These individuals all worked together to defraud the Pell Grant program by processing applications for sham students; falsifying GEDs, high school diplomas, and the results of ability-to-benefit examinations; and creating fictitious attendance records for students who had left the schools after a minimum period of time. The Scardinos admitted that they retained the illegally obtained Pell Grant funds for their own use. The Pell Grant program was targeted by the United Academies of Cosmetology after the schools lost student loan revenue because of a high default rate in 1990.

The Scardinos, Roberts and Craig are scheduled to be sentenced during the next reporting period. (*Semiannual Report No.33*, page 18 and *Semiannual Report No. 34*, page 32)

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STEPHEN WESLEY KISER

Birmingham, Alabama

Stephen Wesley Kiser was sentenced in U.S. District Court, Northern District of Alabama, to five months imprisonment followed by 38 months of supervised release time, including three months of home detention, and was ordered to pay $62,804 in restitution. Previously, Kiser pled guilty to a one-count information charging him with making false statements in order to receive federal SFA funds. The OIG investigation revealed that Kiser had used numerous false identities to fraudulently obtain $62,804 in SFA between 1991 and 1997.

Kiser used the identities of deceased individuals to enroll at Jacksonville State University, Jacksonville, Alabama. After completing the enrollment process, Kiser fraudulently received federal financial aid funds under the deceased persons' names. (*Semiannual Report No. 35*, page 27)

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JAMIE VAELLO CARMONA, president and owner

Reingold & Associates, Inc.

Rio Piedras, Puerto Rico

Jamie Vaello Carmona, president and owner of Reingold and Associates, was sentenced in U.S. District Court, San Juan, Puerto Rico, to four months home confinement and four years supervised probation and was ordered to pay restitution of $50,000 to the University of Puerto Rico (UPR). Vaello, who had previously pled guilty to one count of SFA fraud, used his company, Reingold & Associates, to collect Perkins Loan payments from former students after his contract with UPR had terminated. This joint ED/OIG–FBI investigation disclosed that Vaello, who continued to represent to the students that he was the UPR collection agent, failed to remit the monies he collected to UPR. (*Semiannual Report No.35*, page 25)

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TERRY DIEHL, registrar
JACQUELINE SMITH, registrar
SHIRLEY LYBRAND, registrar
Romar International, Inc.

Terry Diehl, former registrar, Romar Beauty School, Kissimmee, Florida, one of nine branch campuses, was sentenced in the Middle District of Florida to 120 days home confinement and one year of supervised probation, fined $50 and ordered to pay restitution in the amount of $6,625 to the U.S. Department of Education.

Jacqueline Smith, former registrar, Romar Melbourne Beauty Academy, Melbourne, Florida, was sentenced to 120 days home confinement and two years supervised probation, fined $50 and ordered to pay restitution in the amount of $6,625 to the Department of Education.

Both Diehl and Smith had earlier pled guilty in connection with their role in a scheme to enroll ineligible students at Romar schools. Specifically, Diehl and Smith knowingly certified student loan applications for students who were not eligible for SFA funds because the students had neither a high school diploma nor a General Equivalency Degree (G.E.D.) certificate and had not passed ability-to-benefit examinations. (*Semiannual Report No. 35*, page 22)

Also during the period, a federal grand jury in the Middle District of Florida indicted the former registrar of the Cocoa Beauty College, a subsidiary of Romar International, Inc. Shirley Lybrand was charged with five counts of bank fraud after the grand jury alleged that she had knowingly enrolled students who did not have either high school diplomas or G.E.D. certificates and had not passed ability-to-benefit examinations. According to the indictment, Lybrand may be subject to criminal asset forfeiture if she is found guilty of the charges. This joint ED/OIG–FBI investigation is continuing.

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MINERVA DEL RIO, adjunct professor
AMANDO PONS and **DAGOBERTO GUZMAN**
Mercy College
Bronx, New York

Minvera Del Rio, a former adjunct professor at Mercy College, Bronx, New York, was sentenced to two years of incarceration to be followed by three years of supervised probation. Del Rio, who earlier pled guilty to conspiracy charges, set up sham marriages for illegal aliens and provided fraudulent Social Security numbers to financial aid applicants at Mercy College.

Two former students at Mercy College were indicted by a federal grand jury in the Southern District of New York for their role in the scheme. Amando Pons and Dagoberto Guzman were charged with making false statements in connection with their applications for and receipt of federal SFA at Mercy College. Pons and Guzman had been previously arrested by ED/OIG agents. (*Semiannual Report No. 34*, page 23)

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NEENA KHANNA, owner

Camden Beauty College

San Jose, California

Neena Khanna, owner of Camden Beauty College, pled guilty to one count of SFA fraud. At sentencing, she was placed on electronic monitoring for a period of five months, placed on probation for a term of three years and ordered to pay restitution of $23,076 to ED. Investigation disclosed that Khanna falsified various documents on "no show" students and received Pell Grant funds for these students. She also falsified a Free Application for Student Aid for a student whose mother had paid the full cost of attendance and obtained a Pell Grant in this student's name. Khanna also received Pell Grant funds for students who were receiving Regional Occupation Funding. The accounts for these students were over-funded when she failed to make refunds either to the students or to the school's federal funds account on their behalf. (*Semiannual Report No. 35*, page 22)

Abstract 3

ALTERNATIVE PRODUCTS

October 1, 1997 — March 31, 1998

Postsecondary Education

NO.	TITLE	ISSUED
98-01	Office of the Inspector General Alert Concerning the Administrative Capability and Financial Responsibility of Central State University, Wilberforce, Ohio	11/12/97
98-02	Associated Technical College, Los Angeles, California – Title IV Funds Exceeded 85 Percent of Total Revenues for Two Campuses	11/17/97
98-03	Debt Collection Service Needs to Modify the Debt Management and Collection System to Ensure that Variable Rate Loan Balances are Properly Recalculated and Adjusted	12/16/97
98-04	National Student Loan Data System Processing Enhancement to Ensure Data Integrity and Detect and Prevent Duplicate Records	01/16/98
98-05	The Office of Postsecondary Education Needs to Closely Monitor the Illinois Student Assistance Commission to Ensure It Has the Ability to Properly Administer the Federal Family Education Loan Programs	01/21/98
98-06	Institutional Participation and Oversight Service Needs to Ensure that it Has Current Program Participation Agreements for All Institutions Participating in the Title IV, Higher Education Act Programs	03/02/98

State and Local

NO.	TITLE	ISSUED
98-01	Conflict of Interest and Subcontracting Issues Relating to Regional Education Laboratories and the Council for Educational Development and Research	01/30/98
98-02	Office of the Inspector General Alert Concerning Discretionary Grants Awarded to Central State University, Wilberforce, Ohio	02/13/98

Systems

NO.	TITLE	ISSUED
S11-80008-01	Grant Administration and Payment System (GAPS) Readiness Review	3/31/98

Administrative Operations

NO.	TITLE	ISSUED
S53-70003	Computer Donation Program	2/2/98
S53-70005	Leased Real Estate	3/31/98

RECOMMENDATIONS DESCRIBED IN PREVIOUS *SEMIANNUAL REPORTS* ON WHICH CORRECTIVE ACTION HAS NOT BEEN COMPLETED

Section 5(a)(3) of the Inspector General Act requires a listing of each report resolved before the commencement of the reporting period for which management has not completed corrective action. The reports listed below are OIG internal and nationwide audit reports and management improvement reports.

REPORT NUMBER	AUDITEE/TITLE	DATE RESOLVED	TOTAL MONETARY FINDINGS	SEMIANNUAL REPORT NO.	SEMIANNUAL REPORT PAGE
OFFICE OF ELEMENTARY AND SECONDARY EDUCATION					
11-20202	*CHANGES TO IMPACT AID PROGRAMS' SITE REVIEW PROCESS SHOULD IMPROVE EFFICIENCY AND ASSURE BETTER USE OF PROGRAM FUNDS*	*09/30/94*	*4,382,000*	*26*	*85*
09-38259	*THE DEPARTMENT SHOULD EVALUATE THE NEED FOR ANNUAL CHILD COUNTS IN THE IMPACT AID PROGRAM*	*09/30/97*	•	*31*	*09*
OFFICE OF SPECIAL EDUCATION AND REHABILITATIVE SERVICES					
03-50201	*COORDINATION AND COLLABORATION WITHIN THE OFFICE OF SPECIAL EDUCATION AND REHABILITATIVE SERVICES TO BETTER SERVE CUSTOMERS AND MANAGE PROGRAMS*	*09/30/97*	•	*34*	*18*
OFFICE OF POSTSECONDARY EDUCATION					
11-00010	*OFFICE OF STUDENT FINANCIAL ASSISTANCE DID NOT ASSURE THAT ALL INSTITUTIONS SUBMITTED AUDIT REPORTS OR THAT IT RECOVERED ALL MISSPENT FUNDS*	*09/30/93*	*33,800,000*	*24*	*63*
11-90040	*THE INSTITUTIONAL ELIGIBILITY PROCESS DOES NOT PROVIDE ADEQUATE ASSURANCE THAT ONLY ELIGIBLE SCHOOLS PARTICIPATE IN THE TITLE IV PROGRAMS*	*09/30/93*	*482,000*	*22*	*6*
*92-05***	*ED NEEDS TO STRENGTHEN STUDENT LOAN CURE PROCEDURES*	*09/30/93*	*154,000,000*	*24*	*12*
*92-10***	*STRICTER STANDARDS NEEDED FOR GRANTING OF FORBEARANCES*	*09/30/93*	•	*25*	*3*
*92-13***	*ED NEEDS TO CHANGE THE LEGISLATIVE DEFINITION OF LOANS IN REPAYMENT*	*01/31/94*	•	*25*	*5*
05-20075	*EFFECTIVENESS OF THE REGIONAL INSTITUTIONAL REVIEW BRANCHES' MONITORING OF INSTITUTIONS PARTICIPATING IN THE STUDENT FINANCIAL ASSISTANCE PROGRAMS*	*08/31/94*	•	*28*	*19*
17-30302	*FINANCIAL AUDIT: FEDERAL FAMILY EDUCATION LOAN PROGRAM'S FINANCIAL STATEMENTS FOR FISCAL YEARS 1993 AND 1992*	*10/31/94*	•	*29*	*16*
11-30001	*INCONSISTENT INSTITUTIONAL PELL GRANT REPORTING RESULTS IN SIGNIFICANT EXPENDITURE DISCREPANCIES*	*07/31/95*	•	*29*	*15*
04-40100	*HELPING TO ASSURE EQUALIZED EDUCATIONAL OPPORTUNITIES WITH HEA, TITLE III INSTITUTIONAL AID FUNDS - GLOBAL PERFORMANCE MEASURES NEEDED*	*08/31/95*	•	*31*	*11*
17-30305	*ANNUAL INTEREST GRANTS: IMPROVING THE PROCESS FOR PAYING THE REMAINING GRANTS*	*02/29/96*	*5,025,272*	*31*	*14*
11-40001	*FOLLOW-UP REVIEW ON SELECTED GATEKEEPING OPERATIONS*	*02/29/96*	•	*31*	*13*
05-40005	*ED NEEDS TO CONSIDER IMPLEMENTING CHANGES FOR MONITORING LENDERS AND SERVICERS*	*03/31/96*	•	*32*	*10*
05-50008	*EFFECTIVENESS AND EFFICIENCY OF DEBT COLLECTION SERVICE - AREAS RELATED TO INTERNAL OPERATIONS*	*04/30/96*	•	*32*	*12*
04-38000	*LESSONS LEARNED FROM RTC'S HANDLING OF FEDERAL FAMILY EDUCATION LOANS ...*	*08/31/96*	•	*32*	*9*
04-60001	*PROCESS ENHANCEMENTS IN THE HEA, TITLE III, INSTITUTIONAL AID PROGRAM WOULD INCREASE PROGRAM EFFICIENCY, DESPITE LIMITED RESOURCES*	*08/31/96*	•	*32*	*9*

REPORT NUMBER	AUDITEE/TITLE	DATE RESOLVED	TOTAL MONETARY FINDINGS	SEMIANNUAL REPORT NO.	PAGE
06-30004	*MANAGING FOR RESULTS: REVIEW OF PERFORMANCE-BASED SYSTEMS AT SELECTED ACCREDITING AGENCIES*	*08/31/96*	•	*31*	*7*
07-48051	*CLOSED SCHOOLS: $2.4 BILLION UNAUDITED*	*06/30/96*	•	*31*	*13*
06-50010	*THE ELECTRONIC DATA EXCHANGE: A SECURITY REVIEW IS NEEDED*	*12/31/96*	•	*33*	*12*
03-60001	*REVIEW OF THE MANAGEMENT SYSTEMS AND STRUCTURE OF THE U.S. DEPARTMENT OF EDUCATION, OFFICE OF POSTSECONDARY EDUCATION, OFFICE OS STUDENT FINANCIAL ASSISTANCE PROGRAMS*	*03/31/97*	•	*33*	*29*
09-38058	*THE DEPARTMENT SHOULD CONTINUE ITS EFFORTS TO IMPROVE THE ACCURACY OF ITS STUDENT LOAN DATABASE*	*03/31/97*	•	*33*	*13*
11-50001	*ACCURACY OF STUDENT AID AWARDS CAN BE IMPROVED BY OBTAINING INCOME DATA FROM THE INTERNAL REVENUE SERVICE*	*06/30/97*	*109,000,000*	*34*	*08*
OFFICE OF THE CHIEF FINANCIAL OFFICER					
11-00333	*GREATER EMPHASIS NEEDED TO DEOBLIGATE UNEXPENDED CONTRACT FUNDS AND CLOSE OUT CONTRACTS ON TIME*	*03/31/94*	*7,500,000*	*26*	*17*
17-40302	*FINANCIAL STATEMENT AUDIT: U.S. DEPARTMENT OF EDUCATION FEDERAL FAMILY EDUCATION LOAN PROGRAM FOR THE YEARS ENDED SEPTEMBER 30, 1994 AND 1993*	*08/31/95*	•	*31*	*12*
17-48320	*FINANCIAL STATEMENT AUDIT OF THE U.S. DEPARTMENT OF EDUCATION WILLIAM D. FORD FEDERAL DIRECT LOAN PROGRAM*	*09/30/95*	•	*30*	*20*
17-40303	*THE REPORT OF INDEPENDENT ACCOUNTANTS ON THE U.S. DEPARTMENT OF EDUCATION FISCAL YEAR 1995 DEPARTMENT-WIDE FINANCIAL STATEMENTS*	*03/31/97*	•	*33*	*14*

• Non-monetary findings only
•• Management improvement report

ED/OIG Reports on Education Department Programs and Activities

(October 1, 1997 — March 31, 1998)

Section 5(a)(6) of the Inspector General Act requires a listing of each report completed by OIG during the reporting period. A total of 16 reports were completed by ED/OIG auditors. These reports are listed below.

ACN	AUDITEE/REPORT TITLE	STATE	ISSUED	QUESTIONED COSTS (excluding unsupported)	UNSUPPORTED COSTS	BETTER USE OF FUNDS
OFFICE OF POSTSECONDARY EDUCATION						
02-70001	AUDIT OF THE DIRECT LOAN PROGRAM ADMINISTERED BY DOWLING COLLEGE	NY	OCT-97	153,990		
02-70003	THE UNIVERSITY OF PUERTO RICO - RIO PIEDRAS' ADMINISTRATION OF THE FEDERAL DIRECT LOAN PROGRAM NEEDS MAJOR IMPROVEMENTS	PR	MAR-98	•		
03-60009	ADMINISTRATION OF THE WILLIAM D. FORD FEDERAL DIRECT LOAN PROGRAM BY SCHOOLS	PA	OCT-97	•		
04-70004	AUDIT OF THE WILLIAM D. FORD DIRECT LOAN PROGRAM ADMINISTERED BY THE TENNESSEE STATE UNIVERSITY	TN	JAN-9	•		
05-70004	STRATEGIC PLANNING AND PERFORMANCE MEASUREMENTS FOR GUARANTOR AND LENDER OVERSIGHT SERVICE ACTIVITIES CAN HELP FOSTER ACHIEVEMENT OF AN EFFICIENT AND EFFECTIVE FEDERAL FAMILY EDUCATION LOAN PROGRAM	DC	NOV-97	•		
05-80002	CENTRAL STATE UNIVERSITY NEEDS TO IMPROVE ITS CONTROL OVER THE FEDERAL WORK STUDY PROGRAM	OH	MAR-98	•		
05-80005	CENTRAL STATE UNIVERSITY STUDENT SUPPORT SERVICES PROGRAM	OH	MAR-98	•		
06-60010	REVIEW OF CHANGES FOR UNEMPLOYMENT COMPENSATION INSURANCE	LA	JAN-98	2,265,212		
06-70005	PROFESSIONAL JUDGMENT AT YALE UNIVERSITY	CT	MAR-98	5,469		
OFFICE OF ELEMENTARY AND SECONDARY EDUCATION						
02-50200	PUERTO RICO DEPARMENT OF EDUCATION MUST INSTITUTE A TIME DISTRIBUTION SYSTEM	PR	NOV-97	•		
03-70001	AUDIT OF THE DISTRICT OF COLUMBIA PUBLIC SCHOOLS' ADMINISTRATION OF THE SAFE SCHOOLS GRANT	DC	JAN-98	205,171	5,480	

ACN	AUDITEE/REPORT TITLE	STATE	ISSUED	QUESTIONED COSTS (excluding unsupported)	UNSUPPORTED COSTS	BETTER USE OF FUNDS
OFFICE OF SPECIAL EDUCATION AND REHABILITATIVE SERVICES						
05-70009	*INDIANA FAMILY AND SOCIAL SERVICES ADMINISTRATION NEEDS TO IMPROVE ITS CONTROL OVER THE RANDOLPH-SHEPPARD PROGRAM*	*IN*	*DEC-97*	•		
OFFICE OF EDUCATION RESEARCH & IMPROVEMENT						
04-70015	*REVIEW OF COSTS INCURRED BY THE UNIVERSITY OF NORTH CAROLINA, GREENSBORO, AND THE SOUTHEASTERN REGIONAL VISION FOR EDUCATION UNDER THE U.S. DEPARTMENT OF EDUCATION'S REGIONAL EDUCATIONAL LABORATORIES CONTRACT*	*NC*	*FEB-98*	*2,300,000*		
OFFICE OF CHIEF FINANCIAL OFFICER/CHIEF INFORMATION OFFICER						
05-70017	*REVIEW OF INDIRECT COSTS CLAIMED OHIO — REHABILITATION SERVICES COMMISSION FISCAL YEARS 1993 AND 1994*	*OH*	*NOV-97*	*538,210*		
09-60009	*WESTED'S ADMINISTRATION OF THE REGIONAL EDUCATIONAL LABORATORY CONTRACTS*	*CA*	*MAR-98*	*131,000*		*2,900,000*
11-70007	*THE STATUS OF EDUCATION'S IMPLEMENTATION OF THE-CLINGER-COHEN ACT*	*DC*	*MAR-98*	•		
17-70011	*THE STATUS OF THE U.S. DEPARMENT OF EDUCATION'S READINESS FOR YEAR 2000*	*DC*	*MAR-98*	•		

• Non-monetary findings only

INSPECTOR GENERAL ISSUED REPORTS WITH QUESTIONED COSTS[1]

		NUMBER	QUESTIONED	UNSUPPORTED[2]
A.	For which no management decision has been made by the commencement of the reporting period (as adjusted)	35	$ 199,338,889	$ 31,701,477
B.	Which were issued during the reporting period	7	5,604,532	5,480
	Subtotals (A + B)	42	$ 204,943,421	$ 31,706,957
C.	For which a management decision was made during the reporting period	12	$ 92,060,358	$ 8,595,065
	(i) Dollar value of disallowed costs		5,924,150	2,177,877
	(ii) Dollar value of costs not disallowed		86,136,208	6,417,188
D.	For which no management decision has been made by the end of the reporting period	30	$ 112,883,063	$ 23,111,892
E.	For which no management decision was made within six months of issuance	17	$ 76,135,813	$ 19,341,114

[1] *None of the audits reported in this table was performed by the Defense Contract Audit Agency.*

[2] *Included in questioned costs.*

INSPECTOR GENERAL ISSUED REPORTS WITH RECOMMENDATIONS FOR BETTER USE OF FUNDS[1]

	NUMBER	DOLLAR VALUE
A. For which no management decision has been made by the commencement of the reporting period (as adjusted)	5	$ 23,106,552
B. Which were issued during the reporting period	1	2,900,000
Subtotals (A + B)	6	$ 26,006,552
C. For which a management decision was made during the reporting period	1	7,000,000
(i) Dollar value of recommendations that were agreed to by management		$ 7,000,000
(ii) Dollar value of recommendations that were not agreed to by management		0
D. For which no management decision has been made by the end of the reporting period	5	$ 19,006,552
E. For which no management decision was made within six months of issuance	4	$ 16,106,552

[1] *None of the audits reported in this table was performed by the Defense Contract Audit Agency.*

UNRESOLVED REPORTS ISSUED PRIOR TO OCTOBER 1, 1997

Section 5(a)(10) of the Inspector General Act requires a listing of each report issued before the commencement of the reporting period for which no management decision has been made by the end of the reporting period.

REPORT NUMBER	AUDITEE/TITLE	ST	DATE ISSUED	TOTAL MONETARY FINDINGS	REASONS OVERDUE	PROJECTED MANAGEMENT DECISION	SEMIANNUAL REPORT NO.	PAGE NO.
09-10007	WESTERN TRUCK SCHOOL	CA	09/10/92	8,834,503	01	09/30/98	25	78
07-23545	MISSOURI STATEWIDE	MO	04/01/93	1,048,768	01	***	**	
05-20007	AMERICAN CAREER ACADEMY	MI	05/27/93	2,003,658	01	09/30/98	27	17
09-10005	CALIFORNIA STUDENT AID COMMISSION	CA	09/10/93	41,100,000	01	***	27	17
09-33114	STATE OF CALIFORNIA	CA	12/24/93	4,191,032	01	***	28	18
07-33123	MISSOURI STATEWIDE	MO	03/07/94	187,530	01	***	**	
05-30010	NORTHSTAR GUARANTEE INCORPORATED	MN	08/16/94	619,287	01	09/30/98	29	31
04-43134	FLORIDA STATEWIDE	FL	12/05/94	615,996	05	***		
01-46037	COMMONWEALTH OF MASSACHUSETTS	MA	02/01/95	2,173,536	02,04	06/26/98	30	16
02-56113	VIRGIN ISLANDS DEPARTMENT OF EDUCATION	VI	02/17/95	10,375,000	05	***	30	17
05-40007	REPORT ON THE TRANSITIONAL GUARANTY AGENCY'S ROLE IN GUARANTY AGENCY TRANSITION	MN	06/02/95	*	01	***	**	
04-53670	FLORIDA STATEWIDE	FL	10/04/95	2,855,402	05	***		
05-40001	CLOSE-OUT AUDIT OF THE CHICAGO INSTITUTE OF TECHNOLOGY	IL	10/08/96	10,079,439	01	09/30/98	34	11
01-50091	ROXBURY COMMUNITY COLLEGE DISBURSED $2.2 MILLION TO STUDENTS ENROLLED IN AN INELIGIBLE ENGLISH AS A SECOND LANGUAGE PROGRAMS	MA	10/29/96	2,253,564	01	09/30/98	34	10
03-60006	REVIEW OF THE COOPERATIVE AGREEMENT FOR THE NATIONAL CENTER FOR ADULT LITERACY AWARDED TO THE UNIVERSITY OF PENNSYLVANIA FOR THE PERIOD NOVEMBER 1, 1992 THROUGH MARCH 31, 1996	PA	01/28/97	*	***		34	19
04-60147	REVIEW OF SELECTED ASPECTS OF THE KENTUCKY HIGHER EDUCATION ASSISTANCE AUTHORITY'S ADMINISTRATION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM	KY	02/18/97	1,263,251	01	09/30/98	34	9
04-60152	REVIEW OF MONITORING CONTROLS USED TO ENSURE FULFILLMENT OF TITLE VII BILINGUAL EDUCATION GRANT PROGRAM OBJECTIVES	DC	06/30/97	*	***		35	17
09-53006	A NEW FORMULA IS NEEDED TO EQUITABLY ALLOCATE VOCATIONAL REHABILITATION PROGRAM FUNDS TO STATES	WA	07/18/97	*	01	***	35	18
06-70003	PROFESSIONAL JUDGEMENT AT ST. LOUIS UNIVERSITY	MO	07/30/97	2,599,709	01	09/30/98	35	14
06-60004	FINANCIAL AID ADMINISTRATORS USE OF PROFESSIONAL JUDGEMENT	DC	07/31/97	*	***		35	13
17-60002	U.S. DEPARTMENT OF EDUCATION RECOMMENDATIONS TO IMPROVE MANAGEMENT CONTROLS AND OPERATIONS RESULTING FROM MATTERS NOTED DURING OUR FISCAL YEAR 1996 FINANCIAL STATEMENT AUDIT	DC	08/05/97	*	***		35	19
04-70001	STATE AND LOCAL EDUCATION AGENCIES NEED MORE TECHNICAL ASSISTANCE TO TAKE FULL ADVANTAGE OF FLEXIBILITY PROVISIONS OF TITLE XIV OF THE IMPROVING AMERICAN'S SCHOOLS ACT	DC	08/20/97	*	***		35	17
11-50201	OFFICE OF SPECIAL EDUCATION AND REHABILITATIVE SERVICES SECRETARIAL REVIEW PROCESS IN NEED OF CHANGE	DC	08/22/97	*	***		35	19

REPORT NUMBER	AUDITEE/TITLE	ST	TOTAL DATE ISSUED	MONETARY FINDINGS	PROJECTED REASONS OVERDUE	SEMIANNUAL MANAGEMENT DECISION	REPORT NO.	PAGE NO.
06-60006	*ELIMINATING ADVANCE FUNDING WOULD ENHANCE THE INTEGRITY OF THE FEDERAL PELL GRANT PROGRAMS*	*DC*	*08/28/97*	*	***		*35*	*13*
01-58052	*EDUCATION LOAN SERVICES, INC. FAILED TO CALCULATE INTEREST REBATES OWED TO THE SECRETARY ESTIMATED AT $1,014,000*	*MA*	*09/30/97*	*1,014,000*	***		*35*	*10*
01-60008	*THE MASSACHUSETTS CORPORATION FOR EDUCATIONAL TELECOMMUNICATIONS MUST BE A RESTRICTED INDIRECT COST RATE FOR CHARGING INDIRECT COSTS TO FEDERAL GRANTS*	*MA*	*09/30/97*	*1,027,690*	***		*35*	*16*
01-70002	*UNIVERSITY OF MASSACHUSETTS - AMHERST*	*MA*	*09/30/97*	*	***		*35*	*11*

NOTES

* Non-monetary findings only
** Not individually written up
*** Information not provided by P.C.

REASON CODES FOR REPORTS OVER SIX MONTHS OLD

01 - Administrative delays
02 - Delay in receiving auditee comments or additional information from auditee
03 - Delay in receiving additional information from nonfederal auditor
04 - Lack of staff
05 - Cooperative Audit Resolution and Oversight Initiative (CAROI) pilot state

STATISTICAL SUMMARY

October 1, 1997 — March 31, 1998

OIG AUDIT REPORTS ISSUED	17
– Questioned Costs	$ 5,599,052
– Unsupported Costs	$ 5,480
– Recommendations for Better Use of Funds	$ 2,900,000
OIG AUDIT REPORTS RESOLVED BY PROGRAM MANAGERS	13
– Questioned Costs Sustained	$ 3,746,273
– Unsupported Costs Sustained	$ 2,177,877
– Additional Disallowances Identified by Program Managers	$ 108,640
– Management Commitment to Better Use of Funds	$ 7,000,000
NONFEDERAL AUDIT REPORTS RESOLVED BY PROGRAM MANAGERS	4
– Questioned Costs Sustained	$ 101,699
– Unsupported Costs Sustained	$ – 0 –
INVESTIGATIVE CASE ACTIVITY	
– Cases Opened	191
– Cases Closed	274
– Cases Active at End of Period	398
– Cases Referred for Prosecution	31
– Accepted	16
– Declined	15
INVESTIGATION RESULTS	
– Indictments/Informations [1]	33
– Convictions/Pleas [2]	28
– Fines Ordered	$ 1,325
– Restitutions Ordered [3]	$ 4,677,063
– Restitution Payments Collected [4]	$ 200,699
– Civil Settlements (number) [5]	123
– Civil Settlements [6]	$ 886,919
– Civil Judgments	$ 2,015,942
– Recoveries	$ 92,946

[1] Includes 4 actions not reported in our last *Semiannual Report*.
[2] Includes 8 actions not reported in our last *Semiannual Report*.
[3] Includes $16,072 not reported in our last *Semiannual Report*.
[4] Collected by the Department of Justice (represents restitution payments collected from January—March 1998).
[5] Includes 10 actions not reported in our last *Semiannual Report*.
[6] Includes $109,353 not reported in our last *Semiannual Report*.

GLOSSARY OF ABBREVIATIONS

ACN	audit control number
ATB	ability-to-benefit
CAROI	Cooperative Audit Resolution and Oversight Initiative
CFO	Chief Financial Officer
CIO	Chief Information Officer
DOJ	Department of Justice
ED	U.S. Department of Education
EDCAPS	Education Department Central Automated Processing System
ESEA	Elementary and Secondary Education Act
FBI	Federal Bureau of Investigation
FFELP	Federal Family Education Loan Program
FWS	Federal Work-Study (Program)
FY	fiscal year
GAO	General Accounting Office
GLOS	Guarantor and Lender Oversight Service
GMRA	Government Management Reform Act
GPRA	Government Performance and Results Act

GLOSSARY OF ABBREVIATIONS

OIG	Office of Inspector General
OMB	Office of Management and Budget
OPE	Office of Postsecondary Education
SFA	student financial assistance/student aid
ST	state
VA	Department of Veterans Affairs

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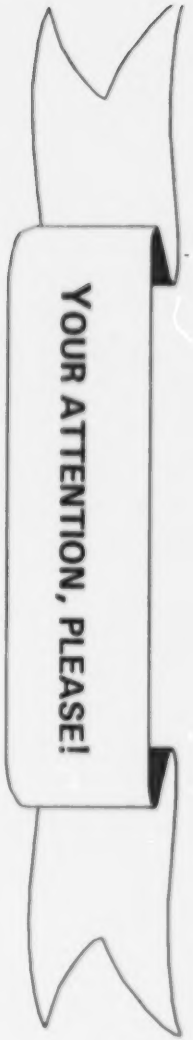

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